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## Samsung 2020 Mobile Incentive Agreement(s) Executive Summary

Google Owners: JimK / KONA team  
Last update: 11/04/2020

### TLDR Summary (*note: all %s given in "gross" throughout this document*)

Samsung's RSA now consists of three separate agreements, and the term was expanded from two years to four years. We believe Deals 1 (Browser, Search & Assistant) & 2 (Services - Discover & Messages) are close to finalizing. Samsung has agreed to terms and both deals are in deal folder. Deal 3 (GTM collaboration) is still in progress, and Samsung has a shared goal of finalizing within two weeks. Summary of deals (and deviations from the last review with Sundar) are below.

#### Deal 1:

First we did two things: 1) Removed Chrome & search widget from Europe as paid access points on new devices. This reduces the effective global "new device" TAC (weighted average) from **20% to 11%**, saving **\$1.6B** over 4 years. We also 2) cut the install base payment percentages in half from 20% to 10%, saving **\$2.3B USD**. Then, we provided one concession to Samsung by giving the S Browser access point (~20% of search revenue on the device) an incremental +4% of install base back, given the ease of OTA'ing the browser search settings. We then also offered an opportunity for Samsung to add Chrome in the hotseat and make it the default browser intent on a device-by-device basis for devices with carrier client IDs (excluding Europe, Turkey, Russia). The Chrome and S Browser considerations will collectively impact payments by **~\$300M**, and we believe we will collectively **save \$3.6B** from Deal 1 relative to the prior 2017-20 Samsung RSA deal.

S-browser search defaults on all Samsung devices (ex-carrier, and device-by-device in Europe, Russia, Turkey) through Deal 1, along with parity for Google Assistant relative to 3P assistants. On a device-by-device election (and in exchange for paying on the search widget ex-Europe), Samsung can also commit to 3P search and assistant preload exclusivity (ex-Europe). In Europe, on a device-by-device election, we get "parity+." We also get two SUW screens to promote Google services.

#### Deal 2:

This deal amounts to ~1.1B devices over 4 years, and Samsung does have the option to switch over to their own -1 experience via the Settings menu. This 6% on the install base represents **\$1.4B** over 4 years. **Note: Some carriers may push back and this will be handled in conjunction with the carrier team.** In addition to the install base bump, we also provide revenue share on Business Messaging and Display ads on -1. The revenue share from Business Messaging is projected to be single-digit \$M, and -1 share to **~\$200M** over 4 years (with potential high variability here), and we also added the **\$150M** bonus (originally \$250M and located in Deal 3) to be added to the GTM fund. Adding up Deals 1 and 2, we are still **~\$1.8B** below the prior as-is deal.

#### Deal 3:

We created a performance driven program which allows Samsung to earn "GTM Fund" dollars if they sell premium devices in key Apple-led markets, such as NA, EEA, and Japan. Samsung will earn \$3/device to be added to the fund for every eligible activation (devices over \$350 in specified markets), and additionally up to \$30 - \$100 per "switcher" from iOS. The current switcher rate is at 8%, but Samsung can earn more per switcher as they increase this rate. Example: if they double their switcher rate, the per device incentives go up to \$50 and \$100 for the two segments. We believe this aligns incentives for Samsung to be very targeted and focused on driving iOS -> Android switching in key markets. Our projections are that we will fund **\$1.2 - \$2.0B** to this GTM Fund over 4 years. We have also negotiated for Google to have a voice in how the GTM Fund is used. An incremental **\$50M** has also been ear-marked to support Samsung's pivot from Tizen to WearOS for their watches.

#### Notable service omissions and adjustments from last Sundar review:

We decided not to pursue DHS exclusivity for the Play Store. Play Store will still be distributed and placed on the Default Home Screen for all devices via the MADA, but there is room for Samsung to also add the Galaxy Store. This saves us **\$1.0B** over 4 years. We also did not get Google Pay preloaded on Samsung devices (as had originally been contemplated in the Sundar/BC review). The \$10M per month payment to Samsung was also removed.

Within Deal 3, tablets were added to the switcher payout, which will help support new planned product /eng initiatives for large screen Android devices, along with some smaller countries (from a Premium perspective) that are "canaries in coal mines" for Samsung; Malaysia, Thailand, Saudi Arabia. The original list of countries were: North America (US, Canada), EEA

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(all), APAC (Japan, Australia, Hong Kong, Taiwan).

As noted above, we also migrated the signing bonus from Deal 3 to Deal 2 to motivate closure as Deal 2 was wholesale restructured in early July to move Samsung from zero to closing speed. (Please note that in the beginning, Deal 2 was 5 services required on all Samsung devices in exchange for installed base bonus, \$10M a month, and Play revenue share).

**Combining deals 1, 2, and 3 vs. as-is**

**Relative to prior deal:** For Google, D1-D3 in aggregate – including internal investments to support -- is roughly in-line with the prior deal and the range is from \$600M less than the projected prior deal (\$8.1B), to \$200M over in the case that Samsung achieves meaningful share gains vs. iOS.

**Relative to BC Approvals:** Updated deal size of **\$8 - 8.9B** (includes internal investments - Chowa, staffing, etc.) is **within** BC-approved guidance of **\$7.2 - 10.3B**, and within BC-approved margin guidance of 26% for D1+D2, and 27-56% for D3.

Key structural differences from prior agreement (Samsung 2017-20 RSA)

- **Structure.** Made up of three separate agreements. Deal 1 (aka "D1") = Browsers (S-browser [all devices in certain markets] and Chrome) and Search & Assistant enhanced promotion agreement; Deal 2 = a Google Services promotion agreement which includes all Samsung devices (Discover and Messages); and Deal 3 = a Go-to-Market collaboration agreement. Prior deal (now expired) was strictly device by device.
- **Timing.** 4 year term for Deals 1 and 3. 4.5 year term for Deal 2. The prior deal was a 2 year term, and was extended one year.

Key "gets" from the agreement

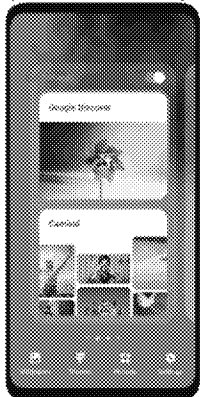
Area
<b>DEAL 1</b>
<b>Samsung Browser.</b> Search defaults and enhanced promotion within S-browser for all Samsung devices ex-telecom operator client ID devices. Also, device by device election in certain markets. S-browser and voice = paid access points.
<b>Enhanced Search and Assistant promotion.</b> Core and Enhanced tier. Enhanced tier is device-by-device. Election activates search widget as a paid access point.
<b>Assistant</b> = Ex-EEA, parity for non telecom operator devices, increased promotion for enhanced devices. EEA = parity+ on a device-by-device basis.
<b>Chrome.</b> There is no affirmative obligation ("good faith") efforts and Samsung can elect on a device-by-device basis. Election activates Chrome as a paid access point.
<b>SUW screens.</b> Two reserved for Google to promote Google Services
<b>Reduced Installed base revenue share percentage.</b> From 20% to 10% (both numbers in gross) across GSA / Voice access points
<b>Reduced payments on new devices in Europe.</b> Chrome and Widget are not paid search access points on new devices.
<b>DEAL 2</b>
<b>Android Messages and Guest Cloud interoperability.</b> Default SMS / RCS intent and in the hotseat. Prior P+ Samsung

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devices received software update to have interoperability with Google Guest Cloud.

-1. Set as Google experience with an option to switch to Samsung experience in the Settings Menu. Google will be the initial experience (as Discover, or successor) and user will be able to switch to Samsung Daily from the - 1 'Settings' menu (+1 action away, triggered by long press screen or pinch zoom finger action)



Activated via long-press or pinch-to-zoom on any screen

**Note:** We provide an additional +6% of payment to help secure these three items (Messages, Guest Cloud MR, Discover)

### Deal 3

**Security / Lettered upgrades.** Public commitment for 3 years of OS updates and 4 years of security updates for devices over \$400. Note: we expect that the OS and security updates will trickle down to lower priced models at a cadence similar to the prior deal.

**Product Improvement Plan.** Samsung to implement Google-created "Product Improvement Plan" 2x a year, for a total of 8 improvement plans

**Go-to-market collaboration.** Google to be an active participant and have voice (guaranteed regional collaboration, final approval rights) in go-to-market spend allocation & strategy for over \$1B budget to increase share in premium.

**Wear GTM.** Put in GTM support for new joint WearOS project and also solve for other product asks (Face Studio, eSIM)

What did we "lose" from the prior agreement

**Daydream.** No Daydream integration on devices (Note: Daydream was deprecated by Google prior to the end of the prior deal)

Projected economics

**Total payment to Samsung. (all numbers in gross)**

- Projected payout from prior deal if re-signed "as is" for 4 years = **~\$8.1B.**
- New deal = 0-7% less than projected "prior" deal for combined D1, D2, D3 = **~\$7.5-8.3B**
  - Install base payments: ~20% less, except S-browser, where % is unchanged.
  - New device payments: ~50% via not paying on Chrome & Search widget in EEA
  - New services payments (-1 and Messages): ~\$200 M
  - Chrome in the hotseat payment (carrier ID): ~\$153 M
- Projected deal margins of ~26% over 4 year term (incremental revenue / payment - 1), in line with BC approved guidance of ~26%

GTM Fund (from deal 3): \$1.4 - \$2.2B (includes \$150M D2 signing bonus and \$50M for Wear GTM as part of D3)

- Projected deal margin of 37-56%, within BC approved guidance of 31-133%

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**Internal costs and contributions**

- **CHOWA (Google-owned GTM) and HC costs.** \$500-800M (which includes up to 30HC)

**Relative to prior deal:** For Google, D1-D3 in aggregate – including internal investments to support – is roughly in-line with prior deal. However, payments to Samsung are potentially ~+\$0.2B USD over to ~\$0.6B USD less than projected for the prior deal.

**Relative to BC Approvals:** Updated deal size of \$8 - 8.9B is within BC-approved guidance of \$7.2 - 10.3B, and within BC-approved margin guidance of 26% for D1+D2, and 27-56% for D3.

**Per device TAC: (on gross basis)**

- **Install base:** 20% -> 16% (of gross), except for browser access point (stays at 20%)
- **New devices:** 20% -> 11% (weighted average)
  - Bulk of savings comes from reducing TAC in EEA from 20% -> 0% on Chrome/GSA
  - 57.5% of revenue comes from EEA, of which 77.7% comes from GSA and Chrome, giving a net effective reduction of ~45%
- **Giving opportunity to earn on Chrome for telecom operator IDs:** N/A -> 4% of gross.

Deviations and adjustments from BC / Sundar review (slides [here](#))

**Product adjustments from BC**

1. **Play.** Did not get DHS exclusivity for Play Store and integration into Samsung game launcher. **Other items:** Galaxy Store notifications to be handled through the Product Improvement Plan. Samsung -1 has a new reduced role on the device.
2. **Pay.** Did not get GPay preloaded on all devices.
3. **Chrome in the hotseat.** Limited to US, JP, and CA. We discouraged Chrome in the hotseat for EEA, RU, TR.

**Adjustments to payments from BC // (-) = reduction in payment to Samsung, (+) = increased payment to Samsung**

- A. **(-) Play revenue share.** Not paying ~\$1B in Play revenue share (which secured little for Google in return).
- B. **(-) Monthly payments.** Removed fixed monthly payments of \$10M USD / month. (\$480M in payments removed)
- C. **(-) Signing bonus.** Reduced from \$250 M to \$200M (\$150 M to close D2; \$50 M for D3 - all funds used for GTM)
- D. **(-) Business Messaging.** Changed revenue share from 24%->20%. (TBD and has a wide variance of payment potential)
- E. **(-) Funding for D3 GTM Fund.** Reduced overall payments to GTM fund via change to (negotiated) switcher rate assumption, while increasing the per-device switcher incentives.
- F. **(+) Reinvestment of install base TAC in Deal 2.** Went up from 5%->6% for install base add-in to reinvest (makes Samsung whole to previous rate minus security / lettered upgrade bump of 4%).
- G. **(+) Discover Display Ads.** Paying 20% Discover Play ads AFTER operational costs (up to 35%) and content costs (which we know to be TBD and has a wide variance of payment potential)
- H. **(+) Chrome in the hotseat.** Paying 4% to get Chrome in the hotseat on devices that have telecom operator ID (e.g. carrier-ranged and distributed); projected impact ~\$153M over 4 years.
- I. **(+) Keeping S-Browser at prior rate (20%) for Install base** instead of dropping to 16% (10% D1 + 6% D2 like the other access points); projected impact ~\$139M over 4 years.

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